

# QUARTERLY REPORT

## TRADING NAME OF LICENSEE:

Marina District Development Company, LLC and Subsidiary  
(Borgata Hotel Casino & Spa)

For The Quarter Ended June 30, 2005

TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY

# BALANCE SHEETS

AS OF JUNE 30, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 30,815	\$ 19,450
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2005, \$8,478; 2004, \$4,420)..... Note 2.....	49,906	20,661
4	Inventories.....	2,923	2,636
5	Prepaid Expenses and Other Current Assets.....	6,159	4,752
6	Total Current Assets.....	89,803	47,499
7	Investments, Advances, and Receivables.....	3,504	2,699
8	Property and Equipment - Gross.....	1,076,136	1,026,381
9	Less: Accumulated Depreciation and Amortization.....	(106,335)	(53,899)
10	Property and Equipment - Net.....	969,801	972,482
11	Other Assets.....	11,006	16,108
12	Total Assets.....	\$ 1,074,114	\$ 1,038,788
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	\$ 15,524	\$ 6,423
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other..... Note 6.....	2,000	75,333
17	Income Taxes Payable and Accrued.....	5,709	-
18	Other Accrued Expenses..... Note 3,8.....	50,034	44,472
19	Other Current Liabilities..... Note 4,5.....	16,058	8,659
20	Total Current Liabilities.....	89,325	134,887
	Long-Term Debt:		
21	Due to Affiliates.....	-	-
22	Other..... Note 6.....	364,100	433,194
23	Deferred Credits.....	3,880	-
24	Other Liabilities..... Note 7.....	6,207	10,328
25	Commitments and Contingencies		
26	Total Liabilities.....	463,512	578,409
27	Stockholders', Partners', or Proprietor's Equity.....	610,602	460,379
28	Total Liabilities and Equity.....	\$ 1,074,114	\$ 1,038,788

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
	Revenue:		
1	Casino.....	\$ 331,650	\$ 290,169
2	Rooms.....	43,223	39,366
3	Food and Beverage.....	58,684	56,692
4	Other.....	12,562	10,933
5	Total Revenue.....	446,119	397,160
6	Less: Promotional Allowances.....	89,599	86,330
7	Net Revenue.....	356,520	310,830
	Costs and Expenses:		
8	Cost of Goods and Services.....	189,672	175,158
9	Selling, General, and Administrative..... Note 5,8.....	47,991	37,724
10	Provision for Doubtful Accounts..... Note 2.....	1,965	1,859
11	Total Costs and Expenses.....	239,628	214,741
12	Gross Operating Profit.....	116,892	96,089
13	Depreciation and Amortization.....	27,160	28,071
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) from Operations.....	89,732	68,018
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	-	-
18	Interest (Expense) - External..... Note 6,7.....	(12,784)	(19,743)
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(3,383)	(3,707)
20	Nonoperating Income (Expense) - Net.....	178	187
21	Total Other Income (Expenses).....	(15,989)	(23,263)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	73,743	44,755
23	Provision (Credit) for Income Taxes..... Note 8.....	(604)	6,932
24	Income (Loss) Before Extraordinary Items.....	74,347	37,823
	Extraordinary Items (Net of Income Taxes - 2004, \$0; 2004, \$0).....	-	-
26	Net Income (Loss).....	\$ 74,347	\$ 37,823

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: Marina District Development Company, LLC and Subsidiary (Borgata Hotel Casino & Spa)

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
	Revenue:		
1	Casino.....	\$ 169,596	\$ 149,965
2	Rooms.....	22,990	20,662
3	Food and Beverage.....	30,623	29,806
4	Other.....	7,345	6,094
5	Total Revenue.....	230,554	206,527
6	Less: Promotional Allowances.....	46,168	41,586
7	Net Revenue.....	184,386	164,941
	Costs and Expenses:		
8	Cost of Goods and Services.....	99,056	90,810
9	Selling, General, and Administrative..... Note 5,8.....	25,553	20,781
10	Provision for Doubtful Accounts..... Note 2.....	1,772	(845)
11	Total Costs and Expenses.....	126,381	110,746
12	Gross Operating Profit.....	58,005	54,195
13	Depreciation and Amortization.....	13,787	14,254
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) from Operations.....	44,218	39,941
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	-	-
18	Interest (Expense) - External..... Note 6,7.....	(6,376)	(9,665)
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(1,334)	(1,917)
20	Nonoperating Income (Expense) - Net.....	(290)	565
21	Total Other Income (Expenses).....	(8,000)	(11,017)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	36,218	28,924
23	Provision (Credit) for Income Taxes..... Note 8.....	(195)	4,467
24	Income (Loss) Before Extraordinary Items.....	36,413	24,457
25	Extraordinary Items (Net of Income Taxes).....	-	-
26	Net Income (Loss).....	\$ 36,413	\$ 24,457

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

## STATEMENTS OF CHANGES IN PARTNERS' OR PROPRIETOR'S EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND THE TWELVE MONTHS ENDED DECEMBER 31, 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	Accumulated Other Comprehensive Income (Loss) (e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2003.....	\$ 446,700	\$ (45,377)	\$ (15,141)	\$ 386,182
2	Net Income - 2004.....	-	133,465	-	133,465
3	Capital Contributions.....	30,807	-	-	30,807
4	Capital Withdrawals.....	-	-	-	-
5	Partnership Distributions.....	-	-	-	-
6	Prior Period Adjustments.....	-	-	-	-
7	Other Comprehensive Income, net.....Note 7	-	-	9,287	9,287
8	.....	-	-	-	-
9	.....	-	-	-	-
10	Balance, December 31, 2004.....	477,507	88,088	(5,854)	559,741
11	Net Income - 2005.....	-	74,347	-	74,347
12	Capital Contributions.....	-	-	-	-
13	Capital Withdrawals.....	-	-	-	-
14	Partnership Distributions.....	-	(26,578)	-	(26,578)
15	Prior Period Adjustments.....	-	-	-	-
16	Other Comprehensive Income, net.....Note 7	-	-	3,092	3,092
17	.....	-	-	-	-
18	.....	-	-	-	-
19	Balance, June 30, 2005.....	\$ 477,507	\$ 135,857	\$ (2,762)	\$ 610,602

*Marina District Development Company is a limited liability company and therefore is treated as a partnership.*

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 109,552	\$ 66,026
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(29,421)	(4,755)
5	Proceeds from Disposition of Property and Equipment.....	-	-
6	Purchase of Casino Reinvestment Obligations.....	(805)	-
7	Purchase of Other Investments and Loans/Advances made.....	-	-
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....	-	-
9	Cash Outflows to Acquire Business Entities.....	-	-
10		-	-
11		-	-
12	Net Cash Provided (Used) By Investing Activities.....	(30,226)	(4,755)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	-	-
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	259,300	169,700
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	(318,800)	(267,329)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	-	30,807
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21	Partnership Distributions.....	(26,578)	-
22		-	-
23	Net Cash Provided (Used) By Financing Activities.....	(86,078)	(66,822)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	(6,752)	(5,551)
25	Cash and Cash Equivalents at Beginning of Period.....	37,567	25,001
26	Cash and Cash Equivalents at End of Period.....	\$ 30,815	\$ 19,450
	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 15,654	\$ 18,369
28	Income Taxes, net of refunds.....	\$ (4,595)	\$ 4,100

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ 74,347	\$ 37,823
	Noncash Items Included in Income and Cash Items		
	Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	27,108	25,324
31	Amortization of Other Assets.....	52	2,747
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	-	207
36	(Gain) Loss on Casino Reinvestment Obligations.....	3,383	3,707
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	(2,658)	(3,107)
39	Net (Increase) Decrease in Inventories.....	63	(415)
40	Net (Increase) Decrease in Other Current Assets.....	(672)	24
41	Net (Increase) Decrease in Other Assets.....	804	573
42	Net Increase (Decrease) in Accounts Payable.....	994	(259)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	2,434	(577)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	3,767	353
45	Net Loss (Gain) on Derivative Financial Instruments.....	(70)	(374)
46		-	-
47	Net Cash Provided (Used) By Operating Activities.....	\$ 109,552	\$ 66,026

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ (29,421)	\$ (4,755)
49	Less: Capital Lease Obligations Incurred.....	-	-
50	Cash Outflows for Property and Equipment.....	\$ (29,421)	\$ (4,755)
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$ -	\$ -
52	Goodwill Acquired.....	-	-
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....	-	-
54	Long-Term Debt Assumed.....	-	-
55	Issuance of Stock or Capital Invested.....	-	-
56	Cash Outflows to Acquire Business Entities.....	\$ -	\$ -
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$ -	\$ 30,807
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$ -	\$ 30,807

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

Amended

11/21/05

FOR THE SIX MONTHS ENDED JUNE 30, 2005

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	206,564	\$ 26,353		
2	Food	944,104	19,455	345,091	3,451
3	Beverage	2,952,311	9,595		
4	Travel			11,310	2,828
5	Bus Program Cash				
6	Other Cash Complimentaries	1,224,588	30,615		
7	Entertainment	42,405	1,696	4,984	498
8	Retail & Non-Cash Gifts			26,336	6,584
9	Parking				
10	Other*	75,370	1,885	2,197,737	1,978
11	Total	5,445,342	\$ 89,599	2,585,458	\$ 15,339

\* Promotional Allowances - Other includes \$803 of comp dollars and slot dollars earned but not redeemed.

\* Promotional Expenses - Other includes \$1,884 of comp taxes.

FOR THE THREE MONTHS ENDED JUNE 30, 2005

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	104,489	\$ 13,771		
2	Food	487,209	10,098	206,723	2,067
3	Beverage	1,556,458	5,059		
4	Travel			5,535	1,384
5	Bus Program Cash				
6	Other Cash Complimentaries	608,656	15,217		
7	Entertainment	24,616	984	3,678	368
8	Retail & Non-Cash Gifts			13,384	3,346
9	Parking				
10	Other*	43,169	1,039	1,239,564	1,116
11	Total	2,824,597	\$ 46,168	1,468,884	\$ 8,281

\* Promotional Allowances - Other includes \$436 of comp dollars and slot dollars earned but not redeemed.

\* Promotional Expenses - Other includes \$1,022 of comp taxes.



# Marina District Development Company, LLC and Subsidiary

(A Wholly-Owned Subsidiary of Marina District Development Holding Co., LLC)

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

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## Note 1. Summary of Significant Accounting Policies

### *Basis of Presentation*

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of Marina District Development Company, LLC, d.b.a. Borgata, ("MDDC, LLC") and Marina District Finance Company, Inc. ("MDFC"), its wholly-owned subsidiary, collectively referred to herein as the "Company", "We", or "Us". The Company is a wholly-owned subsidiary of Marina District Development Holding Co., LLC ("Holding Company" or "Parent"). Holding Company is jointly owned by MAC, Corp. ("MAC"), a wholly-owned subsidiary of MGM MIRAGE, and Boyd Atlantic City, Inc. ("BAC"), a wholly-owned subsidiary of Boyd Gaming Corporation. Our purpose is to develop, own, and operate a hotel casino and spa facility at Renaissance Pointe in Atlantic City, New Jersey. We opened Borgata on July 3, 2003 with approximately 2,000 hotel rooms, a 125,000 square foot casino, and other amenities.

In 2004, Boyd Gaming Corporation announced two major expansions of Borgata. The first expansion ("Public Space Expansion") is a project with an estimated cost of \$200,000,000 and the second expansion ("Rooms Expansion") is a project with an estimated cost of \$325,000,000. The Public Space Expansion consists of substantial additions of both gaming and non-gaming amenities to be built on a portion of the existing surface parking lot. The centerpiece of the Rooms Expansion is a new hotel tower, containing approximately 800 rooms and suites, to be built on a portion of the existing surface parking lot, near the existing porte cochere. In addition to the hotel, which will have an arrival and identity separate from our existing hotel tower, the Rooms Expansion will include a new spa, additional meeting room space, and a new parking structure. Access to our existing facilities and the Public Space Expansion amenities is intended to be seamless and convenient. The Public Space Expansion construction commenced in December 2004 with expected completion to occur in the second quarter 2006. The Rooms Expansion construction is expected to begin during the first quarter of 2006 and is scheduled for completion in the fourth quarter of 2007. Boyd Gaming Corporation and MGM MIRAGE have approved both projects, which will be built on land leased from MGM MIRAGE (see Note 5). BAC and MAC do not expect to make further capital contributions to us for the expansion projects as we expect to finance the projects from our cash flow and from our recently refinanced bank credit facility, which is capable of being expanded.

Pursuant to the Joint Venture Agreement (the "JV Agreement"), BAC, as the managing venturer of the Holding Company, has oversight responsibility for the management of Borgata which includes the design, development, and construction as well as the day to day operations. We do not record a management fee to BAC as our management team directly performs these services or negotiates contracts to provide for these services. As a result, the costs of these services are directly borne by the Company and are reflected in our accompanying condensed consolidated financial statements.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results

of our operations and cash flows for the three and six months ended June 30, 2005 and 2004. We suggest reading this report in conjunction with our Quarterly Report for the Fourth Quarter ended December 31, 2004. Our operating results and cash flows for the three and six months ended June 30, 2005 and 2004 are not necessarily indicative of the results that will be achieved for the full year or future periods.

### *Capitalized Interest*

Interest costs incurred during the expansion of the facility, which include commitment fees, letter of credit fees and the amortized portion of deferred loan origination fees, are capitalized and included in property and equipment on the accompanying condensed consolidated balance sheets. Capitalization of interest related to the Public Space Expansion commenced in December 2004, when construction began. Capitalized interest for the three and six months ended June 30, 2005 was \$244,000 and \$337,000.

### *Income Taxes*

Our Parent and we are treated as a partnership for federal income tax purposes; therefore, federal income taxes are the responsibility of MAC and BAC. In New Jersey, casino partnerships are subject to state income taxes under the Casino Control Act, therefore, we are required to record New Jersey state income taxes. In 2004, we were granted permission by New Jersey, pursuant to a ruling request, to file a consolidated New Jersey corporation business tax return with MAC and BAC. Pursuant to a Tax Sharing Agreement, we have agreed with MAC and BAC that our tax liability will be based upon our stand-alone separate activity, as reflected in our condensed consolidated financial statements.

While we are not subject to federal income tax, the JV Agreement and our bank credit agreement provide for distributions to MAC and BAC for payments of income taxes. For the three and six months ended June 30, 2005, equal distributions totaling \$13,133,000 and \$26,578,000, respectively, were made to MAC and BAC.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. Significant estimates incorporated into our accompanying condensed consolidated financial statements include the estimated useful lives for depreciable and amortizable assets, the estimated allowance for doubtful accounts receivable, estimated valuation allowance for deferred tax assets, the estimate for available tax credits, the estimated liabilities for our self-insured medical plan, slot club programs, and litigation, claims and assessments. Actual results could differ from those estimates and assumptions.

### *Derivative Financial Instruments and Other Comprehensive Income*

GAAP requires all derivatives to be recognized on the balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative qualifies and is designated as a hedge, changes in its fair value are either offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. For further information please see Note 7.

**Note 2. Receivables and Patrons' Checks**

Receivables and patrons' checks consist of the following:

	June 30, 2005	June 30, 2004
NJ Tax Refund receivable	\$ 28,143,000	\$ -
Casino receivables (net of an allowance for doubtful accounts, 2005, \$8,275,000 and 2004, \$4,072,000)	16,848,000	14,906,000
Other (net of an allowance for doubtful accounts, 2005, \$203,000 and 2004, \$348,000)	4,857,000	5,294,000
Due from related parties (Note 5)	58,000	461,000
<b>Receivables and patrons' checks, net</b>	<b>\$ 49,906,000</b>	<b>\$ 20,661,000</b>

**Note 3. Other Accrued Expenses**

Other accrued expenses consist of the following:

	June 30, 2005	June 30, 2004
Payroll and related	\$ 21,572,000	\$ 17,205,000
Other	28,462,000	27,267,000
<b>Other accrued expenses</b>	<b>\$ 50,034,000</b>	<b>\$ 44,472,000</b>

**Note 4. Other Current Liabilities**

Other current liabilities consist of the following:

	June 30, 2005	June 30, 2004
Due to related parties (Note 5)	\$ 3,964,000	\$ 1,314,000
Other	12,094,000	7,345,000
<b>Other current liabilities</b>	<b>\$ 16,058,000</b>	<b>\$ 8,659,000</b>

## **Note 5. Related Parties**

Pursuant to the JV Agreement, MAC is solely responsible for any investigation, analyses, clean-up, detoxification, testing, monitoring, or remediation related to Renaissance Pointe. The related amounts due from MAC for these types of expenditures incurred by us were \$0 and \$398,000 at June 30, 2005 and 2004, respectively. Reimbursable expenditures incurred were \$18,000 and \$107,000 for the three and six months ended June 30, 2005, respectively.

Boyd Gaming Corporation reimburses us for expenses relating to investigative services for our casino license and other expenses. The related amounts incurred by us and due from Boyd Gaming Corporation for these types of expenses were \$58,000 and \$63,000 at June 30, 2005 and 2004, respectively. Reimbursable expenditures incurred were \$80,000 and \$107,000 for three and six months ended June 30, 2005, respectively.

In 2005, we entered into a series of ground lease agreements with MAC related to our expansion projects which increase our leased premises from a total of 15.5 acres to a total of 19.0 acres. These new ground lease agreements and the modified existing employee parking garage ground lease agreement provide the land on which our existing employee parking garage, the Public Space Expansion, the Rooms Expansion, and a modified surface parking lot will reside. The lease terms extend until December 31, 2070 with the exception of the surface parking lot lease (which can be terminated by either party upon 18 months written notice) and the lease related to the Rooms Expansion (which contains certain termination conditions based upon construction commencement). Pursuant to the ground lease agreements, we are responsible for reimbursing MAC for related property taxes paid on our behalf. The related amounts due to MAC for these leases were \$3,476,000 and \$336,000 at June 30, 2005 and 2004, respectively. Related rent expense was \$1,304,000 and \$2,609,000 for the three and six months ended June 30, 2005, respectively, of which \$1,054,000 and \$2,109,000, respectively, was capitalized on the accompanying condensed consolidated balance sheet. Related property tax expense was \$476,000 and \$951,000 for the three and six months ended June 30, 2005, respectively, of which \$315,000 and \$631,000 was capitalized on the accompanying condensed consolidated balance sheet.

We reimburse BAC for compensation paid to employees performing services for us on a full-time basis and for out-of-pocket costs and expenses incurred related to travel. Also, Boyd Gaming Corporation is reimbursed for various payments made on our behalf primarily related to third party legal fees, investigative fees, and other costs. The related amounts due to BAC and Boyd for these types of expenditures paid by BAC were \$488,000 and \$978,000 at June 30, 2005 and 2004, respectively. Reimbursable expenditures the three and six months ended June 30, 2005 were \$3,027,000 and \$4,244,000 which were included in the accompanying consolidated statements of operations.

The related party balances above are non-interest bearing.

## Note 6. Debt

Amounts outstanding under each component of our bank credit agreements are as follows:

	June 30, 2005	June 30, 2004
Term Loans	\$ 199,000,000	\$ 494,327,000
Revolving line of credit	167,100,000	14,200,000
Total long-term debt	366,100,000	508,527,000
Less: current maturities	2,000,000	75,333,000
<b>Total</b>	<b>\$ 364,100,000</b>	<b>\$ 433,194,000</b>

On October 20, 2004, our First Amended and Restated credit agreement among Marina District Finance Company, Marina District Development Company, Canadian Imperial Bank of Commerce and certain other financial institutions became effective. The amended bank credit facility modified our original bank credit facility.

The amended bank credit facility consists of a \$450,000,000 revolving credit facility and a \$200,000,000 term loan and is capable of being expanded. The revolving credit facility matures in October 2009 and the term loan matures in October 2011. The term loan is required to be repaid in quarterly increments of \$500,000 commencing on March 31, 2005 continuing through September 30, 2011 at which time the remaining balance of the term loan matures on October 20, 2011. Amounts repaid under the term loan may not be reborrowed. At June 30, 2005, \$199,000,000 of borrowings were outstanding under the term loan and \$167,100,000 was outstanding under the revolving credit facility, leaving availability under the bank credit facility of \$282,900,000. The interest rate on the term loan is based upon either (i) the agent bank's quoted base rate or (ii) the eurodollar rate, plus a fixed margin. The interest rate on the revolving credit facility is based upon either (i) the agent bank's quoted base rate or (ii) the eurodollar rate, plus an applicable margin that is determined by the level of a predefined financial leverage ratio. In addition, we incur a commitment fee on the unused portion of the revolving credit facility that ranges from 0.25% to 0.5% per annum. The amended bank credit facility is secured by substantially all of our real and personal property and is non-recourse to MAC and BAC.

The amended bank credit facility contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a fixed charge coverage ratio, (ii) establishing a maximum permitted total leverage ratio, (iii) imposing limitations on the incurrence of additional secured indebtedness, (iv) imposing limitations on the maximum permitted expansion capital expenditures during the term of the amended bank credit facility and (v) imposing restrictions on investments, dividends and certain other payments. We believe we are in compliance with these covenants as of June 30, 2005.

## Note 7. Interest Rate Protection Agreements

On March 8, 2001, we entered into several interest rate protection agreements to comply with the requirements of our original bank credit agreement at an initial cost of \$771,000. The interest rate protection agreements consist of interest rate swaps, caps and collars with a combined total initial

aggregate notional amount of \$310,000,000 that commence and mature at various dates ranging from December 2001 to December 2005. The aggregate notional amounts of the agreements at June 30, 2005 and 2004 were \$275,000,000 and \$290,000,000, respectively. The interest rate protection agreements are accounted for as derivative financial instruments in accordance with SFAS No. 133. The fair values of the derivative financial instruments at June 30, 2005 and 2004 have been recorded on the accompanying condensed consolidated balance sheets. Net interest paid or received pursuant to the derivative financial instruments is included in interest expense in the period, which is subject to capitalization during the construction period of the Public Space Expansion (see Note 1). The net effect of our interest rate swaps resulted in an increase in interest expense of \$1,384,000 and \$3,059,000, respectively, greater than the contractual rate of the underlying hedged debt for the three and six months ending June 30, 2005. At June 30, 2005 and 2004, the weighted average fixed interest rates that we received were 3.6% and 1.6%, respectively, and the weighted average variable interest rates that we paid were 5.3% and 4.9%, respectively.

We are exposed to credit loss in the event of nonperformance by the counterparties to the interest rate protection agreements. However, we believe that this risk is minimized because the counterparties to the agreements are existing lenders under our bank credit facility. If we had terminated our interest rate protection agreements as of June 30, 2005, we would have paid \$2,158,000 based on quoted market values from the financial institutions holding the agreements.

The following table reports the effects of the mark to market valuations of our derivative financial instruments for the periods indicated (in thousands). The increase or decrease in fair value of certain hedges deemed to be ineffective is reported in the accompanying condensed consolidated statements of operations. The increase or decrease in fair value of certain hedges deemed to be effective is reported in other comprehensive income (loss) as a component of member equity on the accompanying condensed consolidated balance sheets.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net gain (loss) on derivative financial instruments due to ineffectiveness in certain hedges	<u>\$ (356,000)</u>	<u>\$ 756,000</u>	<u>\$ 70,000</u>	<u>\$ 374,000</u>
Derivative financial instruments market adjustment	\$1,328,000	\$ 5,180,000	\$ 3,398,000	\$6,117,000
Tax effect of derivative financial instruments market adjustment	<u>(118,000)</u>	<u>(466,000)</u>	<u>(306,000)</u>	<u>(550,000)</u>
Net derivative financial instruments market adjustment	<u>\$1,210,000</u>	<u>\$ 4,714,000</u>	<u>\$ 3,092,000</u>	<u>\$5,567,000</u>

All of our current outstanding interest rate protection agreements mature on December 31, 2005. As such, a net amount of \$878,000 of existing net losses reported in accumulated other comprehensive loss at June 30, 2005 will be recorded as net losses on derivative financial instruments in the condensed consolidated statement of operations by December 31, 2005 through quarterly mark to market valuations of our derivative financial instruments.

## **Note 8. Commitments and Contingencies**

In June 2004, Borgata and the eleven other casinos in the Atlantic City gaming market (collectively, the "Casinos") entered into a Grant and Donations Agreement ("Agreement") with the New Jersey Sports & Exposition Authority (the "NJSEA") and the Casino Reinvestment Development Authority (the "CRDA") in the interest of deferring or preventing the proliferation of competitive gaming at New Jersey racing tracks.

Under the terms of the Agreement, the Casinos shall pay to the NJSEA \$34,000,000 to be used for certain authorized purposes (the "Authorized Uses") as defined by the Agreement. The \$34,000,000 to be paid by the Casinos shall be payable over a four year period as follows: \$7,000,000 on or before October 15, 2004; \$8,000,000 on or before October 15, 2005; \$9,000,000 on or before October 15, 2006; and \$10,000,000 on or before October 15, 2007. In the event any of the \$34,000,000 is not used by NJSEA for the Authorized Uses by January 1, 2009, the unused funds shall be returned by NJSEA to the Casinos pro rata based upon the share each casino contributed. For each year, each casino's share of the \$34,000,000 will equate to a percentage representing its gross gaming revenue for the twelve months ending June 30th prior to the October 15 payment date compared to the gross gaming revenues for that period for all Casinos. The Casinos, individually and collectively, shall be responsible for the payment of all amounts due. In the event that any casino shall fail to make its payment as required, the remaining Casinos shall pay a pro rata share of the defaulted payment based upon their share of the gross gaming revenue for the period as compared to the gross gaming revenues for the period for all Casinos calculated without the gross gaming revenue of the defaulting casino. As a result, we will expense our pro rata share of the \$34,000,000, estimated to be approximately \$4,100,000 in total using our current market share of gross gaming revenue, on a straight line basis over the applicable term of the Agreement. Based upon the gross gaming revenues for all casinos for the twelve months ended June 30, 2004, our share of the \$7,000,000 paid on October 15 2004 was approximately 12.0%, or \$837,000. We recorded an expense of \$210,000 and \$420,000 for the three and six months ended June 30, 2005.

Also under the terms of the Agreement, the Casinos authorize and request that the CRDA approve donations in the aggregate amount of \$62,000,000 from the Casino's North Jersey Obligations (pursuant to the New Jersey Casino Control Act) for certain uses as defined by the Agreement. If so approved, the CRDA shall credit 100% of the donations received from each casino against that casino's obligation to purchase bonds. The donation shall provide that each casino's share of the \$62,000,000 will equate to a percentage representing its gross gaming revenue for the twelve months ended June 30, 2004 compared to the gross gaming revenues for that period for all Casinos. Each casino's respective annual donation shall be made first from uncommitted current and future funds in the North Jersey Project Fund established in accordance with the CRDA Urban Revitalization Act of that Casino and shall be credited as fulfilling said obligation on behalf of the particular casino making the payment. To the extent such North Jersey Project funds of that casino are not adequate to pay a Casino's share of the required donations, then that casino's other uncommitted current and future North Jersey Obligations shall be utilized. As a result, we will expense our pro rata share of the \$62,000,000 on a straight line basis over the applicable term of the Agreement. Based upon the gross gaming revenues for all casinos for the twelve months ended June 30, 2004, our share of the \$62,000,000 is approximately 12.0%, or \$7,400,000. We recorded an expense of \$681,000 and \$1,223,000 for the three and six months ended June 30, 2005. Based on current gross gaming revenue projections, we expect it will take approximately 10 to 12 years to fully fund this obligation as the third quarter of 2006 is the first quarter we are subject to fund North Jersey Obligations.

### *New Jobs Investment Tax Credit*

Because we made an investment in a new business facility that created new jobs, we are eligible for a refund under the New Jersey New Jobs Investment Tax Credit. The total tax credit available is subject to annual limitations based on both income and property tax liabilities. Our estimated total credit is approximately \$75,000,000 over a five year period subject to certain annual conditions. In February 2005, we received a refund of \$9,300,000 related to the year ended December 31, 2003 and we expect to receive refunds for each of the four years ending December 31, 2004 through December 31, 2007, ranging from approximately \$14,000,000 to \$ 18,000,000 per year. For the three and six months ended June 30, 2005, we recorded a New Jobs Investment Credit of \$4,282,000 and \$8,900,000, respectively. We also incurred state income tax expense of \$3,612,000 and \$7,345,000 and adjusted net profits tax of \$951,000 and \$1,902,000, respectively. The adjusted net profits tax was offset by an adjusted net profits tax credit of \$476,000 and \$951,000, for the three and six months ended June 30, 2005, respectively. As a result, for the three and six months ended June 30, 2005, we recorded a net benefit from income taxes of \$195,000 and \$604,000, respectively, on the condensed consolidated statement of operations.



## STATEMENT OF CONFORMITY AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report, has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



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Signature - Auggie Cipollini

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Vice President - Finance

Title

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7163-11

License Number

On Behalf of:  
Marina District Development Company LLC  
Casino Licensee